

HENRY COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year ended June 30, 2005

HENRY COUNTY SCHOOL DISTRICT
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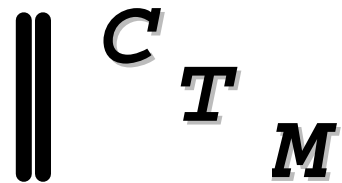
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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Henry County School District
New Castle, Kentucky

We have audited the accompanying basic financial statements of the Henry County School District as of June 30, 2005 and for the year then ended, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2005 and the results of its operations and the cash flows of its business type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 31, 2005, on our consideration of Henry County School District's internal control structure and a report dated October 31, 2005, on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information shown on pages 29 through 33 is presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on pages 34 and 35 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Charles T. Mitchell Co.

October 31, 2005

Henry County Board of Education – New Castle, Ky.
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2005

This section of the Henry County School District's (District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2005. This is the third year the District has reported the annual financial statements using the new reporting model. This reporting model uses both government-wide financial and fund financial statements. Please read it in conjunction with the additional information found within the body of the audit.

Financial Highlights

- The beginning cash balance in July, 2005 for the District was \$3,382,793. This total includes revenues from all funds.
- The District maintained all operations successfully and purchased 2 new buses. We continue to be conservative with purchasing, while ensuring all student needs are properly considered.
- The District received a new federal grant for the high school. The Comprehensive School Reform funds are for schools identified as being in need of improvement to implement research based school reform. It is renewable up to 3 years for \$100,000 each year.
- The District continues to upgrade student technology. Purchases were made for improvement to equipment and related needs.
- Test scores continue to improve in the district. The percentage of Novice scores continues to decrease, as well as the number of dropouts.
- The revenues exceeded expenditures again for this fiscal year. Continuing to have a sound fiscal ending makes it possible to provide educational growth and opportunities for students.
- Several renovation projects were completed. The high school softball field lights were installed and the window replacement project for the elementary and high schools was finished. The middle school completed the ceiling, lighting, and ventilation renovation. The District continues to try to keep improvements made to all facilities.
- The Henry County Board of Education is dedicated and committed to using fiscal resources to continuously improve student achievement.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statement, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities the district operates like businesses, such as food services.

- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are divided into two categories:

- Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finances most of these activities.
- Business-type activities – The District charges fees to help it cover the costs of certain services it provides. The District's community education programs and food service are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The District has three kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explains the relationship between them.
- Proprietary funds – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these

funds are used only for the intended purpose and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provide din the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-28 of this report.

Financial Analysis of the District As A Whole

The District's combined net assets were significantly larger on June 30, 2005 than they were the year before – increasing 31% to \$4.4 million. (See Table A-1). Most of this improvement in the District's financial position came from its governmental activities, the net assets of which grew \$2.94 million to \$4.32 million. The net assets of the District's business-type activities decreased \$138,539 to \$112,248.

The District's improved financial position is the product of many factors. There was some growth in taxes and state grants this year, and a decrease in overall expenses.

Table A-1
Henry County School District's Net Assets

	Governmental Activities		Business-type Activities		School District Total		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2005-2004
Current and other assets	\$ 3,281,434	\$ 3,092,632	\$ 43,305	\$ 59,593	\$ 3,324,738	\$ 3,152,225	0.05
Capital assets	9,787,203	9,018,780	68,943	78,946	9,856,146	9,097,726	0.08
Total assets	<u>\$ 13,068,637</u>	<u>\$ 12,111,412</u>	<u>\$ 112,248</u>	<u>\$ 138,539</u>	<u>\$ 13,180,884</u>	<u>\$ 12,249,951</u>	0.07
Long-term debt outstanding	\$ 8,037,778	\$ 8,516,153			\$ 8,037,778	\$ 8,516,153	(0.06)
Other liabilities	704,051	652,266			704,051	652,266	0.07
Total Liabilities	<u>8,741,829</u>	<u>9,168,419</u>			<u>8,741,829</u>	<u>9,168,419</u>	(0.05)
Net assets							
Invested in capital assets, net of related debt	9,787,203	9,018,780	68,943	78,946	9,856,146	9,097,726	0.08
Restricted	(7,041,750)	(8,064,728)			(7,041,750)	(8,064,728)	(0.15)
Unrestricted	1,581,355	1,988,941	43,305	59,593	1,624,660	2,048,534	(0.26)
Total net assets	<u>\$ 4,326,808</u>	<u>\$ 2,942,993</u>	<u>\$ 112,248</u>	<u>\$ 138,539</u>	<u>\$ 4,439,056</u>	<u>\$ 3,081,532</u>	0.31

* Note: Totals may not add due to rounding.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets: invested in capital assets-net of related debt restricted, and unrestricted. This means that the District has enough available resources to cover all outstanding obligations, including non-capital liabilities (such as compensated absences) as of June 30, 2005, with resources left over to use for next year's operations.

The District's total revenues decreased 7% to \$14.9 million. (See Table A-2). The District's total expenses decreased 12% because revenues last year included bond proceeds.

Table A-2
Change in Henry County School District's Net Assets

	Governmental Activities		Business-type Activities		School District Total		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2005-2004
Revenues							
Program revenues							
Charges for services	\$	\$	\$ 531,157	\$ 541,576	\$ 531,157	\$ 541,576	(0.02)
Federal and state grants	1,783,127	1,668,484	530,432	569,701	2,313,559	2,238,185	0.03
General revenues							
Property taxes	3,298,470	3,083,499			3,298,470	3,083,499	0.07
State formula aid	8,308,444	8,063,822	13,546	13,364	8,321,990	8,077,186	0.03
Other	2,612,044	1,945,086	1,022	553	2,613,066	1,945,639	(0.26)
Total Revenues	<u>16,002,085</u>	<u>14,760,891</u>	<u>1,076,157</u>	<u>1,125,194</u>	<u>17,078,242</u>	<u>15,886,085</u>	(0.07)
Expenses							
Instruction related	8,859,925	7,816,825			8,859,925	7,816,825	0.12
Student support services	2,557,745	2,548,288			2,557,745	2,548,288	0.00
Maintenance and operations	1,074,574	1,006,588			1,074,574	1,006,588	0.06
Administration	1,232,987	1,432,138			1,232,987	1,432,138	(0.16)
Other	893,039	1,285,472	1,150,800	1,119,874	2,043,839	2,405,346	(0.18)
Total Expenses	<u>14,618,271</u>	<u>14,089,311</u>	<u>1,150,800</u>	<u>1,119,874</u>	<u>15,769,071</u>	<u>15,209,185</u>	0.04
Excess/(deficiency) before special items	<u>1,383,814</u>	<u>671,580</u>	<u>(74,643)</u>	<u>5,320</u>	<u>1,309,171</u>	<u>676,900</u>	0.48
Special items							
Increase/(decrease) in net assets	<u>\$ 1,383,814</u>	<u>\$ 671,580</u>	<u>\$ (74,643)</u>	<u>\$ 5,320</u>	<u>\$ 1,309,171</u>	<u>\$ 676,900</u>	0.48

*Note: Totals may not add due to rounding

The District's expenses are predominantly related to educating and caring for students (67 percent). The purely administrative activities of the District accounted for just 8 percent of total costs. Total revenues surpassed expense, increasing net assets \$1,058,749 over last year.

Budgetary Implications

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2 percent contingency. The District adopted a budget with \$ 1,406,566 (12%) in contingency.

No significant board actions were required concerning fiscal matters during fiscal year 2005.

HENRY COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash and Cash Equivalents	\$ 2,966,994	\$ 26,726	\$ 2,993,720
Inventory		16,579	16,579
Accounts Receivable	314,439		314,439
Notes Receivable			
Due from Other Funds			
Total Current Assets	<u>3,281,433</u>	<u>43,305</u>	<u>3,324,738</u>
<u>Noncurrent Assets</u>			
Capital Assets	23,215,439	408,602	23,624,041
Less: Accumulated Depreciation	<u>(13,428,236)</u>	<u>(339,659)</u>	<u>(13,767,895)</u>
Total Noncurrent Assets	<u>9,787,203</u>	<u>68,943</u>	<u>9,856,146</u>
 TOTAL ASSETS	 <u>\$ 13,068,636</u>	 <u>\$ 112,248</u>	 <u>\$ 13,180,884</u>
 LIABILITIES			
<u>Current Liabilities</u>			
Accounts Payable	\$ 5,127	\$	\$ 5,127
Deferred Revenue	153,923		153,923
Due to Other Funds			
Current Portion of Bond Obligations	545,000		545,000
Current Portion of Accrued Sick Leave			
Total Current Liabilities	<u>704,050</u>	<u></u>	<u>704,050</u>
<u>Noncurrent Liabilities</u>			
Noncurrent Portion of Bond Obligations	7,875,000		7,875,000
Noncurrent Portion of Accrued Sick Leave	<u>162,778</u>	<u></u>	<u>162,778</u>
Total Noncurrent Liabilities	<u>8,037,778</u>	<u></u>	<u>8,037,778</u>
 TOTAL LIABILITIES	 <u>\$ 8,741,828</u>	 <u>\$</u>	 <u>\$ 8,741,828</u>
 NET ASSETS			
Invested in Capital Assets	\$ 9,787,203	\$ 68,943	\$ 9,856,146
Restricted For:			
Capital Projects	557,381		557,381
Debt Service	(8,420,000)		(8,420,000)
Other Purposes:(nonexpendable)	820,869		820,869
Unrestricted	<u>1,581,355</u>	<u>43,305</u>	<u>1,624,660</u>
 TOTAL NET ASSETS	 <u>\$ 4,326,808</u>	 <u>\$ 112,248</u>	 <u>\$ 4,439,056</u>

The notes to the basic financial statement are an integral part of this statement.

HENRY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 8,859,925	\$	\$ 1,404,482	\$	\$ (7,455,443)	\$	\$ (7,455,443)
Support Services:							
Student	431,643				(431,643)		(431,643)
Instruction Staff	659,732				(659,732)		(659,732)
District Administrative	534,381				(534,381)		(534,381)
School Administrative	698,606				(698,606)		(698,606)
Business	232,081				(232,081)		(232,081)
Plant Operation and Maintenance	1,074,574				(1,074,574)		(1,074,574)
Student Transportation	1,064,064				(1,064,064)		(1,064,064)
Community Service Activities	170,225				(170,225)		(170,225)
Other			8,074		8,074		8,074
Interest on Long-Term Debt	415,219			370,571	(44,648)		(44,648)
Depreciation	477,820				(477,820)		(477,820)
Total Governmental Activities	14,618,271		1,412,556	370,571	(12,835,144)		12,835,144
Business-Type Activities:							
Food Service	1,129,435	505,853	530,432			(93,150)	(93,150)
Multi-Year	21,365	25,304				3,939	3,939
Total Business-Type Activities	1,150,800	531,157	530,432			(89,211)	(89,211)
Total Primary Government	\$ 15,769,071	\$ 531,157	\$ 1,942,988	\$ 370,571	(12,835,144)	(89,211)	(12,924,355)
General Revenues:							
Taxes:							
Property Taxes					\$ 2,371,980	\$	\$ 2,371,980
Motor Vehicle Taxes					419,809		419,809
Utility Taxes					506,681		506,681
Investment Earnings					101,631	1,022	102,653
State and Formula Grants					8,308,444	13,546	8,321,990
Gains on Sales of Fixed Assets							
Transfers In					303,573		
On Behalf Payments					2,165,354	53149	2,218,503
Miscellaneous					41,487		41,487
Change in Net Assets					1,383,815	(21,494)	1,058,747
Net Assets - Beginning					2,942,993	133,742	3,076,735
Net Assets - Ending					\$ 4,326,807	\$ 112,248	\$ 4,135,482

The notes to the basic financial statement are an integral part of this statement.

HENRY COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Totals Governmental Funds
ASSETS AND RESOURCES					
Cash & cash equivalents	\$ 2,483,107	\$ (126,479)	\$ 610,367	\$	\$ 2,966,995
Accounts Receivable					
Accounts Receivable	34,037	280,402			314,439
Notes Receivable					
Dues from other funds					
TOTAL ASSETS AND RESOURCES	<u>\$ 2,517,144</u>	<u>\$ 153,923</u>	<u>\$ 610,367</u>	<u>\$</u>	<u>\$ 3,281,434</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 5,128	\$	\$	\$	\$ 5,128
Deferred Revenue		153,923			153,923
Total Liabilities	<u>5,128</u>	<u>153,923</u>			<u>159,051</u>
Fund Balances					
Reserved for:					
Encumbrances					
SBDM	9,363				9,363
Technology Escrow	49,700				49,700
Construction Projects	695,470		557,381		1,252,851
Accrued Sick Leave	66,336				66,336
Unreserved:					
General Fund	1,691,147				1,691,147
Special Revenue Funds					
Capital Projects Funds			52,986		52,986
Total Fund Balances	<u>2,512,016</u>		<u>610,367</u>		<u>3,122,383</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,517,144</u>	<u>\$ 153,923</u>	<u>\$ 610,367</u>	<u>\$</u>	<u>\$ 3,281,434</u>

The notes to the basic financial statements are an integral part of this statement.

HENRY COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATE OF NET ASSETS
JUNE 30, 2005

Total Fund Balance per Fund Financial Statements	\$ 3,122,383
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	9,787,202
Certain liabilities(such as bonds payable, the long-term portion of accrued sick leave) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(8,582,778)</u>
Net Assets for Governmental Activities	<u>\$ 4,326,807</u>

The notes to the basic financial statements are an integral part of this statement.

HENRY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2005

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Totals (Memorandum Only)
Revenues:					
From local sources:					
Taxes:					
Property	\$ 2,123,616	\$	\$	\$ 248,251	\$ 2,371,867
Motor Vehicle	384,329			35,480	419,809
Utilities	506,681				506,681
Other	113				113
Earnings on Investments	100,393	1,238			101,631
Other local revenues	15,825	25,662			41,487
Intergovernmental - State	9,124,632	665,113		475,212	10,264,957
Intergovernmental - Indirect federal	8,074	1,341,125			1,349,199
Intergovernmental - Direct federal		63,357			63,357
Total Revenues	<u>12,263,663</u>	<u>2,096,495</u>		<u>758,943</u>	<u>15,119,101</u>
Expenditures:					
Instruction	7,355,958	1,780,755			9,136,713
Support Services:					
Student	431,643				431,643
Instructional staff	594,476	65,256			659,732
District administration	534,381				534,381
School administration	690,059	8,547			698,606
Business	232,081				232,081
Plant operations and maintenance	1,073,441	1,133			1,074,574
Student transportation	966,869	97,195			1,064,064
Food Services					-
Community Service		170,225			170,225
Facilities acquisition & construction			693,664		693,664
Debt Service					
Principal				310,960	310,960
Interest				254,013	254,013
Other					
Total Expenditures	<u>11,878,908</u>	<u>2,123,111</u>	<u>693,664</u>	<u>564,973</u>	<u>15,260,656</u>
Excess (deficit) of revenues over expenditures	<u>384,754</u>	<u>(26,616)</u>	<u>(693,664)</u>	<u>193,970</u>	<u>(141,555)</u>
Other Financing Sources (Uses):					
Proceeds from sale of assets					
Bond principal proceeds					
Operating transfers in		26,616	746,650		773,266
Operating transfers out	(102,790)			(366,903)	(469,693)
Total Other Financing Sources(Uses)	<u>(102,790)</u>	<u>26,616</u>	<u>746,650</u>	<u>(366,903)</u>	<u>303,573</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	281,964		52,986	(172,933)	162,017
Fund balance July 1, 2004	<u>2,230,052</u>		<u>557,381</u>	<u>172,933</u>	<u>2,960,366</u>
Fund balance June 30, 2005	<u>\$ 2,512,016</u>	<u>\$</u>	<u>\$ 610,367</u>	<u>\$</u>	<u>\$ 3,122,383</u>

The notes to the basic financial statements are an integral part of this statement.

HENRY COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Net change in total fund balances per fund financial statements	\$ 162,017
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays this year.	864,575
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	520,000
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(162,778)</u>
Change in net assets of governmental activities	<u>\$ 1,383,814</u>

The notes to the basic financial statements are an integral part of this statement.

HENRY COUNTY SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes:				
Property	\$ 1,940,912	\$ 1,983,002	\$ 2,123,616	\$ 140,614
Motor Vehicle	324,236	311,100	384,329	73,229
Utilities	466,512	466,981	506,681	39,700
Other			113	113
Tuition and fees				
Earnings on Investments	35,000	35,000	100,393	65,393
Other local revenues	2,100	2,100	15,825	13,725
Intergovernmental - State	6,832,482	7,149,889	7,251,503	101,614
Intergovernmental - Indirect federal	2,000	2,000	8,074	6,074
Intergovernmental - Direct federal				
Total Revenues	<u>9,603,242</u>	<u>9,950,072</u>	<u>10,390,534</u>	<u>440,462</u>
Expenditures:				
Instruction	5,742,357	5,688,390	5,727,313	(38,923)
Support Services:				
Student	399,655	419,342	415,698	3,644
Instructional staff	452,939	596,796	744,304	(147,508)
District administration	1,409,550	601,574	410,332	191,242
School administration	610,821	620,441	615,651	4,790
Business	142,019	205,834	221,451	(15,617)
Plant operations and maintenance	964,988	1,009,659	1,030,922	(21,263)
Student transportation	720,516	895,627	913,721	(18,094)
Central office	189,796			
Food Services				
Community Service				
Facilities acquisition & construction				
Debt Service				
Other		1,406,566		1,406,566
Total Expenditures	<u>10,632,641</u>	<u>11,444,229</u>	<u>10,079,392</u>	<u>1,364,838</u>
Excess (deficit) of revenues over expenditures	<u>(1,029,399)</u>	<u>(1,494,157)</u>	<u>311,143</u>	<u>(924,375)</u>
Other Financing Sources (Uses):				
Proceeds from sale of assets	2,000	2,000		(2,000)
Operating transfers in				
Operating transfers out			(102,790)	(102,790)
Total Other Financing Sources(Uses)	<u>2,000</u>	<u>2,000</u>	<u>(102,790)</u>	<u>(104,790)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(1,027,399)</u>	<u>(1,492,157)</u>	<u>208,353</u>	<u>(1,700,510)</u>
Fund balance July 1, 2004	<u>1,027,399</u>	<u>1,492,157</u>	<u>1,492,157</u>	
Fund balance June 30, 2005			<u>\$ 1,700,510</u>	

The notes to the basic financial statements are an integral part of this statement.

HENRY COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Food Service Fund	Other Enterprise Funds	Total
<u>Assets</u>			
<u>Current Assets</u>			
Cash and Cash Equivalents	\$ 20,458	\$ 6,268	\$ 26,726
Inventory	16,579		16,579
Accounts Receivable			
Total Current Assets	<u>37,037</u>	<u>6,268</u>	<u>43,305</u>
<u>Noncurrent Assets</u>			
Capital Assets	408,602		408,602
Less: Accumulated Depreciation	<u>(339,659)</u>		<u>(339,659)</u>
Total Noncurrent Assets	<u>68,943</u>		<u>68,943</u>
Total Assets	<u>\$ 105,980</u>	<u>\$ 6,268</u>	<u>\$ 112,248</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts Payable	\$	\$	\$
Due to Other Funds			
Total Current Liabilities			
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	68,943		68,943
Unrestricted	<u>37,037</u>	<u>6,268</u>	<u>43,305</u>
Total Net Assets	<u>\$ 105,980</u>	<u>\$ 6,268</u>	<u>\$ 112,248</u>

The notes to the basic financial statements are an integral part of this statement.

HENRY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	Food Service Fund	Other Enterprise Funds	Total
Operating Revenues:			
Tuition	\$	\$ 2,302	\$ 2,302
Other	5,763	23,002	28,765
Lunchroom sales	500,090		500,090
Total Operating Revenues	<u>505,853</u>	<u>25,304</u>	<u>531,157</u>
Operating Expenses:			
Salaries and wages	525,590	10,341	535,932
Materials & Supplies	516,208	7,798	524,006
Depreciation Expense	24,645		24,645
Other operating expenses	62,992	3,225	66,217
Total Operating Expenses	<u>1,129,435</u>	<u>21,364</u>	<u>1,150,800</u>
Operating income (loss)	<u>(623,582)</u>	<u>3,940</u>	<u>(619,643)</u>
Non-Operating Revenues (Expenses)			
Federal grants	530,432		530,432
Donated commodities			
State grants	13,546		13,546
Other state funding	53,149		
Interest income	1,022		1,022
Non-Operating Revenues (Expenses)	<u>598,149</u>		<u>545,000</u>
Net income (loss)	(25,433)	3,939	(74,643)
Retained earnings July 1, 2004	<u>131,413</u>	<u>2,329</u>	<u>133,742</u>
Retained earnings June 30, 2005	<u>\$ 105,980</u>	<u>\$ 6,268</u>	<u>\$ 59,099</u>

The notes to the basic financial statements are an integral part of this statement.

HENRY COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

Cash Flows from Operating Activities:	
Net Income	\$ (74,643)
Adjustments to reconcile net income to cash provided by operating activities:	
Prior Period Adjustment	
Changes in assets & liabilities:	
Depreciation	24,645
Inventories	(1,855)
Accounts Receivable	
Accounts Payable	<u> </u>
Net cash used by operating activities:	<u>(51,853)</u>
Cash flows from capital & related financial activities:	
Acquisition of capital assets	<u>(16,031)</u>
Net cash used by capital & related financial activities	<u>(16,031)</u>
Decrease in cash & cash equivalents	(67,884)
Cash and cash equivalents, July 1, 2004	<u>41,158</u>
Cash and cash equivalents, June 30, 2005	<u><u>\$ (26,726)</u></u>
Schedule of Non-Cash Transactions:	
Donated commodities received from federal government	<u><u>\$ 10,796</u></u>

The notes to the basic financial statements are an integral part of this statement.

HENRY COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private Purposes Trust Funds	Agency Fund	Total
Assets			
Cash and Cash Equivalents	\$ 54,871	\$ 192,863	\$ 247,734
Total Assets	<u>\$ 54,871</u>	<u>\$ 192,863</u>	<u>\$ 247,734</u>
Net Assets			
Restricted For:			
Scholarships	\$ 54,871	\$	\$ 54,871
Student Groups		192,863	141,628
Total Net Assets	<u>\$ 54,871</u>	<u>\$ 192,863</u>	<u>\$ 196,499</u>

The notes to the basic financial statements are an integral part of this statement.

HENRY COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2005

	Private Purpose Trust Funds	Agency Fund	Total
Revenues:			
From local sources:			
Student Activities	\$	\$ 608,428	\$ 608,428
Interest Income	1,805		1,805
Other local revenues	1,300		1,300
Total Revenues	<u>3,105</u>	<u>608,428</u>	<u>611,533</u>
Expenditures:			
Other	401		401
Student Activities		592,925	592,925
Total Expenditures	<u>401</u>	<u>592,925</u>	<u>593,326</u>
Excess (deficit) of revenues over expenditures	2,704	15,503	18,207
Other financing sources (uses):			
Operating transfers in			
Operating transfers out	<u>(303,573)</u>		<u>(303,573)</u>
Total other financing sources(uses)	<u>(303,573)</u>		<u>(303,573)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(300,869)	15,503	(285,366)
Fund balance July 1, 2004	<u>355,740</u>	<u>177,360</u>	<u>533,100</u>
Fund balance June 30, 2005	<u>\$ 54,871</u>	<u>\$ 192,863</u>	<u>\$ 247,734</u>

The notes to the basic financial statements are an integral part of this statement.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Henry County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Henry County Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Henry County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Henry County Board of Education Finance Corporation

In a prior year the Board of Education resolved to authorize the establishment of the Henry County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as “inter-fund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive a calculated amount of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund. The non-current portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Each budget is prepared at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's total cash and cash equivalents was \$3,241,455. Of the total cash balance, \$200,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2005 consisted of the following:

	Bank Balance	Book Balance
Central Bank	\$ 3,495,706	\$3,064,253
United Citizens	<u>184,488</u>	<u>177,202</u>
	<u>\$ 3,680,194</u>	<u>\$ 3,241,455</u>

Breakdown per financial statements:

Governmental funds	\$ 2,966,995
Proprietary funds	26,726
Private purpose trust funds	54,871
Agency funds	<u>192,863</u>
	<u>\$ 3,241,455</u>

NOTE D – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

HENRY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE D – CAPITAL ASSETS (CONTINUED)

<u>Governmental Activities</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
Land	\$ 717,058	\$ 76,174	\$	\$ 793,232
Buildings and improvements	17,088,367	1,097,942		18,186,309
Technology equipment	1,468,425	95,267		1,563,692
Vehicles	1,914,374	(149,386)		1,764,988
General Equipment	207,324	6,230		213,554
Totals at historical cost	<u>21,395,548</u>	<u>1,126,227</u>		<u>22,521,775</u>
Less: accumulated depreciation				
Buildings and improvements	10,157,881	598,635		10,756,516
Technology equipment	1,305,810	42,039		1,347,849
Vehicles	1,341,903	(174,449)		1,167,454
General Equipment	144,822	11,595		156,417
Total accumulated depreciation	<u>12,950,416</u>	<u>477,820</u>		<u>13,428,236</u>
Governmental Activities Capital Assets-Net	<u>\$ 8,445,132</u>	<u>\$ 648,407</u>	<u>\$</u>	<u>\$ 9,093,539</u>
 <u>Business-Type Activities</u>				
Food service and equipment	\$ 371,679	\$ 10,973	\$	\$ 382,652
Technology equipment	22,281	3,668		25,949
Totals at historical cost	<u>393,960</u>	<u>14,641</u>		<u>408,601</u>
Less: accumulated depreciation				
Food service and equipment	294,774	23,497		318,271
Technology equipment	20,240	1,148		21,388
Total accumulated depreciation	<u>315,014</u>	<u>24,645</u>		<u>339,659</u>
Business-Type Activities Capital Assets-Net	<u>\$ 78,946</u>	<u>\$ (10,004)</u>	<u>\$</u>	<u>\$ 68,942</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as current and non-current portions of bond obligations represent the District’s future obligation to make bond payments relating to the bonds issued by the Fiscal Court of Henry County. The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue</u>	<u>Original Principal Amount</u>	<u>Interest Rates</u>	<u>Principal Outstanding at 6/30/2005</u>	<u>Maturity Date</u>
Series of February 1, 1995	\$ 360,515	5.5%-5.9%	\$ 275,000	2/1/2015
Series of May 1, 1997	1,155,000	4%-5.55%	1,005,000	5/1/2017
Series of December 1, 1997	1,810,000	4%-4.6%	770,000	1/1/2009
Series of March 1, 1998	1,365,000	4.1%-4.55%	655,000	3/3/2010
Series of November 1, 1998	1,280,000	3.75%-4.3%	1,055,000	11/1/2012
Series of June 1, 2000	2,150,000	4.75%-6%	1,895,000	6/1/20005
Series of November 1, 2001	1,735,000	3.05%-4.3%	1,665,000	11/1/2015
Series of May 1, 2004	1,145,000	4.7%-5.1%	1,100,000	5/1/2024
	<u>\$ 11,000,515</u>		<u>\$ 8,420,000</u>	

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS (continued)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Henry County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996 the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

<u>Year</u>	Henry County School District		Kentucky School Facilities Construction Commission		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2006	\$ 330,929	\$ 241,117	\$ 214,071	\$ 118,916	\$ 905,033
2007	346,435	225,943	223,565	110,243	906,186
2008	361,452	210,396	233,548	100,111	905,507
2009	373,907	193,590	246,093	913,119	1,726,709
2010	396,685	178,756	238,315	81,397	895,153
2011	412,735	160,276	192,265	71,623	836,899
2012	425,741	142,736	199,259	63,918	831,654
2013	447,171	124,659	202,829	55,744	830,403
2014	379,678	110,408	180,322	48,314	718,722
2015	390,535	93,490	189,465	40,919	714,409
2016	258,883	76,463	171,117	33,079	539,542
2017	272,130	62,136	177,870	25,907	538,043
2018	234,136	47,055	150,864	18,467	450,522
2019	232,817	33,536	157,183	12,584	436,120
2020	234,270	20,124	165,730	6,469	426,593
2021	33,155	6,632	56,845		96,632
2022	35,370	5,008	59,630		100,008
2023	32,447	3,274	62,553		98,274
2024	34,382	1,684	65,618		101,684
Total	<u>\$ 5,232,858</u>	<u>\$ 1,937,283</u>	<u>\$ 3,187,142</u>	<u>\$ 1,700,810</u>	<u>\$ 12,058,093</u>

NOTE F – RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System (“KTRS”). Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee’s Retirement System (“CERS”), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 8.48% of the employee’s total compensation subject to contribution.

The Board’s total payroll for the year was \$9,608,737. The payroll for employees covered under KTRS was \$7,410,600 and for CERS was \$2,198,137.

NOTE F – RETIREMENT PLANS (continued)

The contribution requirement for CERS for the year ended June 30, 2005 was \$296,312 which consisted of \$186,403 from the Board and \$109,909 from the employees. The District has no contribution requirements to KTRS. The contribution requirement for KTRS for the year ended June 30, 2005 was \$730,315.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2005 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE G - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE H - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

NOTE I - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

NOTE J - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance.

NOTE L - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE N - TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 26,616
General	Construction	Construction Project	76,174
Capital Outlay	Construction	Construction Project	77,688
Building	Construction	Construction Project	289,215
Trust	Construction	Construction Project	303,573

SUPPLEMENTARY INFORMATION

HENRY COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets & Resources:				
Cash & cash equivalents	\$	\$	\$	\$
Accounts Receivable				
Accounts Receivable				
Notes Receivable				
Inventory				
Net Property Plant & Equipment				
Dues from other funds				
Amounts to be provided for retirement of General Long-Term Obligations				
Total Assets & Resources	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Liabilities & Fund Balances:				
Liabilities:				
Accounts payable	\$	\$	\$	\$
Due to other funds				
Deferred Revenue				
Total Liabilities				
Fund Balances				
Reserved for:				
Encumbrances				
Accrued Sick Leave				
Unreserved:				
General Fund				
Special Revenue Funds				
Capital Projects Funds				
Debt Service Funds				
Permanent Funds				
Total Fund Balances				
Total Liabilities & Fund Balances	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

HENRY COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	FSPK Fund	SEEK Capital Outlay Revenue	Total Nonmajor Governmental Fund
Revenues:			
From local sources:			
Taxes:			
Property	\$ 248,251	\$	\$ 248,251
Motor Vehicle	35,480		35,480
Utilities			
Other			
Tuition and fees			
Earnings on Investments			
Student Activities			
Other local revenues			
Intergovernmental - State	282,342	192,870	475,212
Intergovernmental - Indirect federal			
Intergovernmental - Direct federal			
Total Revenues	<u>566,073</u>	<u>192,870</u>	<u>758,943</u>
Expenditures:			
Instruction			
Support Services:			
Student			
Instructional staff			
District administration			
School administration			
Business			
Plant operations and maintenance			
Student transportation			
Central office			
Food Services			
Community Services			
Non-Instructional			
Facilities acquisition & construction	310,960		310,960
Debt Service	99,715	154,298	254,013
Other			
Total Expenditures	<u>410,675</u>	<u>154,298</u>	<u>564,973</u>
Excess (deficit) of revenues over expenditures	155,398	38,572	193,970
Other Financing Sources (Uses):			
Proceeds from sale of assets			
Proceeds from sale of bonds			
Operating transfers in			
Operating transfers out	(289,215)	(77,688)	(366,903)
Total Other Financing Sources(Uses)	<u>(289,215)</u>	<u>(77,688)</u>	<u>(366,903)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(133,817)	(39,116)	(172,933)
Fund balance July 1, 2004	<u>133,817</u>	<u>39,116</u>	<u>172,933</u>
Fund balance June 30, 2005	<u>\$</u>	<u>\$</u>	<u>\$</u>

HENRY COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
HENRY COUNTY HIGH SCHOOL ACTIVITY FUNDS
YEAR ENDED JUNE 30, 2005

Accounts	Cash Balances July 1, 2004	Receipts	Disbursements	Cash Balances June 30, 2005	Accounts Receivable June 30, 2005	Accounts Payable June 30, 2005	Fund Balances June 30, 2005
Academic Team	\$	\$ 990	\$ 990	\$	\$	\$	\$
AFJ ROTC/GOV	11,127	8,513	5,514	14,126			14,126
Art Club	878	2,122	1,611	1,389			1,389
Athletic	7,113	104,852	99,325	12,640			12,640
Band	260			260			260
Baseball	5,228	16,562	18,200	3,590			3,590
Basketball LL	380	5,576	5,689	267			267
BETA	296	5,939	5,425	810			810
Boy's Basketball	3,603	9,277	9,337	3,543			3,543
Cat's Creations	631	7,619	6,858	1,392			1,392
Cheerleader	3,225	9,999	12,077	1,147			1,147
Chorus	7,811	7,646	13,692	1,765			1,765
Concession	8,199	21,047	19,937	9,309			9,309
Cross Country	595	264	669	190			190
Danceteam		2,234	2,234				
Drink/Snack	16	2,652	2,668				
English	1		1				
FBLA	3,099	18,725	21,713	111			111
FCA	1,808		29	1,779			1,779
FFA		8,795	8,057	738			738
FFA Granhouse	4,681	22,926	20,918	6,689			6,689
FFA/Drink	580	1,899	1,374	1,105			1,105
Field Trips	176	841	941	76			76
Fine Arts	1,710	1,187	2,173	724			724
Football	1,518	17,669	15,773	3,414			3,414
Freshmen		560		560			560
FTA	779			779			779
General	104	7,424	7,446	82			82
Gifted/Move	3,179	1,030	1,003	3,206			3,206
Girl's Basketball	1,503	5,298	3,887	2,914			2,914
Girl's Golf		1,540	1,407	133			133
Golf	1,311	1,290	1,965	636			636
HCHS Bus Scholarship	370		370				
Instructional		20,368	20,368				
Judy Lea Memorial	766		727	39			39
Juniors	1,160	86	30	1,216			1,216
Lady Cats Club	2,113	2,661	3,474	1,300			1,300
Library Fines & Copier	75	634	372	337			337
Locks	571	2,240	2,766	45			45
Math	700	1,235	1,440	495			495
Middle School Football		9,425	7,898	1,527			1,527
NAC	687	99	218	568			568

HENRY COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
HENRY COUNTY HIGH SCHOOL ACTIVITY FUNDS
YEAR ENDED JUNE 30, 2005

Accounts	Cash Balances July 1, 2004	Receipts	Disbursements	Cash Balances June 30, 2005	Accounts Receivable June 30, 2005	Accounts Payable June 30, 2005	Fund Balances June 30, 2005
National Honor Society	343	2,481	2,209	615			615
PE		1,183	662	521			521
PEP Club	112	602	629	85			85
ROTC Fundraiser	2,886	14,415	11,804	5,497			5,497
School Pictures		2,393	2,393				
Science Club	2,556	374	1,181	1,749			1,749
Seniors	515	11,664	12,179				
Social Studies		178	108	70			70
Softball		2,145	2,145				
Sophomores		684		684			684
Spanish	221	58	142	137			137
Student Council	3	387	70	320			320
Teachers' Lounge Drink		74		74			74
Technology Fund Raiser	1,964	1,873	3,837				
Teen Leaders	141	259	400				
Telephone	1	699	700				
Textbooks	442	806	820	428			428
Theatre Club	872		872				
Track	1,585	14,668	9,875	6,378			6,378
TV/Media	2,873	11,052	13,925				
Vocational Trans	63	275	252	86			86
Volleyball	1,337	2,425	2,093	1,669			1,669
Wildcat Publishing	249	157	140	266			266
Wildcat Wallet		955	534	421			421
Woodworking	1,191	1,385	1,693	883			883
Yearbook	8,118	5,697	7,936	5,879			5,879
Total	<u>\$ 101,725</u>	<u>\$ 408,113</u>	<u>\$ 405,175</u>	<u>\$ 104,663</u>	<u>\$</u>	<u>\$</u>	<u>\$ 101,725</u>

HENRY COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MIDDLE AND ELEMENTARY SCHOOLS
YEAR ENDED JUNE 30, 2005

<u>School</u>	Cash Balances July 1, 2004	Receipts	Disbursements	Cash Balances June 30, 2005	Accounts Receivable June 30, 2005	Accounts Payable June 30, 2005	Fund Balances June 30, 2005
Campbellsburg Elementary School	\$ 13,712	\$ 22,771	\$ 22,517	\$ 13,966	\$	\$	\$ 13,966
Eastern Elementary School	14,751	34,020	33,109	15,662			15,662
New Castle Elementary School	15,204	42,623	43,901	13,926			13,926
Henry County Middle School	<u>31,968</u>	<u>100,901</u>	<u>88,223</u>	<u>44,646</u>			<u>44,646</u>
Total	<u>\$ 75,635</u>	<u>\$ 200,315</u>	<u>\$ 187,750</u>	<u>\$ 88,200</u>	<u>\$</u>	<u>\$</u>	<u>\$ 88,200</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HENRY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

	<u>CFDA Number</u>	<u>Pass- Through Number</u>	<u>Disbursements</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Title I, Fiscal Year 2004-2005	84.010	0351-05-01	\$ 322,864
Title I, Fiscal Year 2003-2004	84.010	0351-04-01	33,497
Title I C, Fiscal Year 2004-2005	84.048	0462-05-32	21,251
Title I C, Fiscal Year 2003-2004	84.048	0462-04-32	952
Title I, Migrant, Fiscal Year 2004-2005	84.011	0352-05-02	35,801
Title I, Migrant, Fiscal Year 2003-2004	84.011	0352-04-02	5,895
IDEA-Basic, Fiscal Year 2004-2005	84.027	0581-05-02	325,652
IDEA-Basic, Fiscal Year 2003-2004	84.027	0581-04-02	15,858
IDEA-Part B, Preschool, Fiscal Year 2004-2005	84.173	0587-05-02	13,879
Title II-Part A	84.367A	0710-05-02	102,435
Title II-Part A	84.367A	0710-04-02	7,579
Title II, Part D	84.367A	0710-05-02	1,330
Title II, Part D	84.367A	0710-04-02	9,225
Title IV, Drug Free Schools	84.186	0590-05-02	7,201
Title IV, Drug Free Schools	84.186	0590-04-02	4,331
Title III, Part A	84.365	0520-05-01	12,734
Title III, Part A	84.365	0520-04-01	9,282
Title VI	84.298	0533-04-02	11,214
Adult Education	84.002	0535-05-03	24,989
Adult Education	84.002	0535-04-03	6,742
Reading First	84.357	0522-04-02	140,770
Reading First	84.357	0522-04-02	117,909
Technology Literacy Grant	84.243		20,604
Comprehensive School Reform	84.332A		86,133
Early Reading	84.359B		<u>63,355</u>
Total U.S. Department of Education			<u>1,401,482</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through the Kentucky Department of Education	10.555	0575-05-02	281,431
		0575-04-02	72,269
National School Lunch and School Breakfast Program	10.553	0576-05-02	147,916
Summer Meal	10.559	0574-04-23	26,107
Summr Sponsor		0569-04-24	2,709
Passed through Kentucky Department of Agriculture			
Food Distribution	10.550		<u>10,796</u>
Total U.S. Department of Agriculture			<u>541,228</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>			
Service Learning Grant	94.004	0743-04-02	<u>3,000</u>
Total Corporation for National and Community Service			<u>3,000</u>
TOTAL FEDERAL FINANCIAL AWARDS			<u>\$ 1,945,710</u>

HENRY COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Henry County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____yes X none reported

Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____yes X none reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
10.555	National School Lunch Program
84.027, 84.173	IDEA

Dollar threshold used to distinguish Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____yes X no

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

HENRY COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2005

There were no prior year audit findings.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Charles T. Mitchell Company, LLP

Certified Public Accountants

WILLIAM G. JOHNSON, JR., C.P.A.

JAMES CLOUSE, C.P.A.

BERNADETTE SMITH, C.P.A.

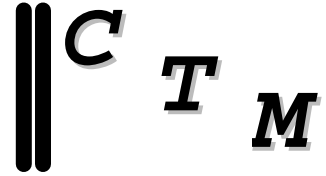
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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Henry County School District
New Castle, Kentucky

We have audited the financial statements of Henry County School District as of and for the year ended June 30, 2005 and have issued our report thereon dated October 31, 2005. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and state audit requirements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henry County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Henry County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted other certain matters that we reported to management of Henry County School District, in a separate letter dated October 31, 2005.

This report is intended solely for the information and use of the members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Henry County School District, The Kentucky Department of Education management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Charles T. Mitchell Co.

October 31, 2005

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Charles T. Mitchell Company, LLP

Certified Public Accountants

WILLIAM G. JOHNSON, JR., C.P.A.

JAMES CLOUSE, C.P.A.

BERNADETTE SMITH, C.P.A.

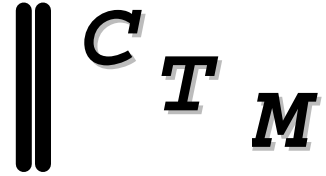
KIM FIELD, C.P.A.

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Henry County School District
New Castle, Kentucky

Compliance

We have audited the compliance of Henry County School District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Henry County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Henry County School District's management. Our responsibility is to express an opinion on Henry County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and state audit requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Henry County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Henry County School District's compliance with those requirements.

In our opinion, Henry County School District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005

Internal Control Over Compliance

The management of Henry County School District, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Henry County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters

involving the internal control over compliance and its operation that we consider to be material weaknesses. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Henry County School District, the Kentucky Department of Education management and federal awarding agencies and pass-through entities. and is not intended to be and should not be used by anyone other than these specified parties.

Charles T. Mitchell Co.

October 31, 2005

MANAGEMENT LETTER COMMENTS

Charles T. Mitchell Company, LLP

Certified Public Accountants

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JAMES CLOUSE, C.P.A.

BERNADETTE SMITH, C.P.A.

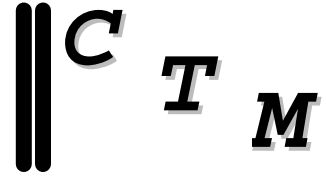
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Henry County Board of Education
326 S. Main Street
New Castle, Kentucky 40050

We have examined the financial statements of Henry County Board of Education for the year ended June 30, 2005 and have issued our report thereon dated October 31, 2005. As part of our examination, we made a study and evaluation of the Henry County Board of Education's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Henry County Board of Education's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Henry County Board of Education is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the system to dispatch its duties.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Henry County Board of Education taken as a whole. We noted no matters involving internal control over financial reporting and its operation that we considered to be material weaknesses.

Follow-Up On Prior Year Recommendations

1. None noted in prior year.

We have enjoyed working with the management and staff of the Henry County Board of Education and look forward to a continuing, mutually productive relationship. Please call us if you have any questions concerning this letter or if we can be of any other assistance.

Respectfully submitted:

Charles T. Mitchell Co.

Charles T. Mitchell Co.
October 31, 2005